Basis Risk: The risk to earnings and economic value when a change in one interest rate differs from that of another interest rate for a similar maturity or term. For example, the rate on a money market share account typically changes less than that of an overnight investment account (earning a Federal funds rate.)

Core Share Deposits: In gap analysis, the estimated portion of deposits that are not rate sensitive. Cores share deposits reflect management's judgment of the portion of shares not expected to be withdrawn and reinvested in a higher rate instrument, in response to an increase in market interest rates. Credit unions may consider many regular share accounts with relatively small balances, as well as the portion of share draft accounts reflecting transactional balances, to be core share deposits. Generally, money market share accounts and share certificates are less likely to be considered core share deposits.

Discount Rate: An interest rate used in a model to calculate an estimate of fair value of a financial instrument. A discount rate is used to compute a present value of a cash flow.

Duration of Equity: A simple estimate of the percentage change in fair value net worth for a one percent change in interest rates.

Gap Analysis: A simple interest rate risk measurement technique that reports the mismatch between rate sensitive assets (RSAs) and rate sensitive liabilities (RSLs) over a given time period. Common time periods (or gap buckets) are 3 months, 6 months, and 12 months. A gap report typically shows differences between RSAs and RSLs for various gap buckets (i.e., the periodic gaps), and
the aggregate difference between RSAs and RSLs up to a specified time period, such as 12 months (i.e., the cumulative gap).

> ***Static gap analysis*** shows repricing mismatches based on the current balance sheet position.
> ***Dynamic gap analysis*** shows repricing mismatches based on a forecasted balance sheet. Since many credit unions use gap analysis, examiners need to understand its uses and weaknesses.

Income Simulation: An interest rate risk measurement technique used to estimate earnings exposure to changes in interest rates. Credit unions use income simulation to forecast Net Interest Income (NIM), Net Income (NI), and accounting for net worth under different interest rate scenarios.

Index: The market interest rate (to which a margin may be added) that is used to reset the interest rate on a variable-rate loan.

Interest Rate Risk (IRR): The risk to a credit union's financial condition resulting from adverse changes in market interest rates. IRR is a type of market risk. Exposure to IRR may be measured by assessing the effect of changing rates and prices on either the earnings or economic value of an individual instrument, a portfolio, or the entire institution.

Net Economic Value (NEV): An interest rate risk measurement technique used to measure the economic exposure of net worth to changes in interest rates. NEV equals the present value of assets less the present value of liabilities.

NEV Volatility: Measures the change (either in dollar or percentage terms) in NEV from a base case resulting from a change in interest rates. A high level of NEV volatility reflects a high level of interest rate risk.

Prepayment: The early repayment of principle, in advance of scheduled amortization or maturity.

Pricing: A credit union management action to set interest rates and terms on loan and deposit products offered to members.

Rate Ramp: Is a gradual increase in interest rates over a specified time period, usually 12 months. Rate ramps are used for management forecasts of future earnings in income simulations.

Rate Sensitivity, Rate Sensitive Assets (RSAs), and Rate Sensitive Liabilities (RSLs): In gap analysis, rate sensitivity is the degree to which a financial instrument is expected to reprice within a given time frame. For example, given a 12-month time frame for a gap report, a 5-year remaining maturity Treasury note is not "rate sensitive" since it will not mature within 12 months. A credit union can estimate prepayments on consumer loans (e.g., 30-year mortgages) to schedule the rate sensitivity of its cash flows. Rate sensitivity assumptions for administered rate liabilities (e.g., regular shares and money market shares) can be very influential on reported gap results.

Rate Shock: An immediate change in the level of interest rates. Parallel rate shocks of 1 to 3 percent are often used to assess interest rate risk.

Repricing: The change in interest rate resulting from either an interest rate reset on a variable-rate or administered-rate instrument, or a reinvestment of cash flow from a maturity, scheduled amortization, prepayment, or early withdrawal of an asset or liability. (For example, a variable rate loan reprices on its interest rate change date and on its maturity date, when the principal can be reinvested at a current market interest rate; repricing also occurs when a credit union administers a rate change on an account such as a money market share account; a fixed rate loan reprices as scheduled payments occur, upon prepayment of principle, and on its contractual maturity date when any outstanding principle balance is repaid).

Shocked Value: The fair value for a financial instrument given a rate shock. The difference between the current value and the shocked value informs management of the price sensitivity of a financial instrument to a change in interest rates.

Volatility: Refers to how much change there is in measures of interest rate risk, such as forecasted net income or NEV, across different interest rate scenarios. Volatility also can refer to how much market participants expect interest rates or prices to change in the future.